

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Wednesday, March 16, 2011

The Board of Administration met on Wednesday, March 16, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:40 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Dan Dunmoyer
Richard Costigan
JJ Jelincic
Henry Jones
Steve Coony for Bill Lockyer
Priya Mathur
Louis F. Moret
Howard Schwartz for Ronald Yank

Board of Administration Members excused: Tony Oliveira.

AGENDA ITEM 3 - APPROVAL OF FEBRUARY 2011 MEETING MINUTES

On **MOTION** by Lou Moret, **SECONDED** by Priya Mathur, and **CARRIED** that the February 16, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 4 – PRESIDENT'S REPORT

President Feckner reported on the following items:

- Staff is directed to bring to the April Board meeting, an item recommending that the Ad Hoc Risk Management and Ad Hoc Board Governance committees be made full standing committees.
- The July Board offsite is scheduled for July 18 through 20 in Petaluma.

CalPERS has decided to call off negotiations with Medco for the 2012
 Pharmacy Benefits Management Contract. The rigorous procurement
 process provides us with appropriate alternatives. CalPERS will pursue
 alternatives to ensure our members continue to receive the highest quality
 health care. CalPERS' members' safety and health is CalPERS' number
 one priority.

President Feckner recognized the past service of Debbie Endsley on the CalPERS Board as Director of the Department of Personnel Administration.

AGENDA ITEM 5 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

- CalPERS recently participated in a joint legislative hearing of the State Assembly and Senate Committees that oversee pensions and retirement. CalPERS' testimony focused on the status of its investment portfolio, funding ratio, and the long term nature of the defined benefit plan.
- CalPERS executive staff met with members of the Little Hoover Commission and has officially responded to the Commission's report as well as to a recent analysis of pension costs by the Legislative Analyst's Office (LAO).
- CalPERS continues to provide technical expertise to decision-makers and recently released a report entitled *The Impact of Closing the Defined Benefit Plan at CalPERS*, outlining critical factors that need to be considered before pension policy decisions are made.
- Ms. Stausboll recently attended the annual Directors' Roundtable hosted by the National Association of State Retirement Administrators (NASRA) and participated in a policy conference hosted by the National Institute on Retirement Security (NIRS).
- The newly organized Office of Enterprise Risk Management recently hosted the Executive team for Emergency Management System training where they reviewed emergency preparedness, first response and action planning. The training was held at CalPERS Emergency Operations Center located in Rancho Cordova.
- In concert with Governor Brown's recent actions toward fiscal austerity in the state budget, CalPERS staff has taken steps to identify savings within the organization and will provide a progress report to the Board in April.
- Joe Dear, Chief Investment Officer, was honored this year as *Private Equity International's* "Private Equity Leader" for 2010. Mr. Dear received high praise for leading an overhaul of CalPERS asset allocation model, negotiating fee reductions with investment managers and securing better alignment of interests.

Ms. Stausboll recognized the staff members of the Office of Governmental Affairs (GOVA), who are responsible for advancing the CalPERS overall mission in the State and federal public policy arenas. Each year GOVA reviews approximately 2,500 bills in the California Legislature. This year, due to an increased focus on pension reform, 2,470 bills were introduced in the first three months, 71 of which directly impact CalPERS. During the previous two-year legislative session, only 65 bills directly impacted CalPERS.

GOVA staff advocate for CalPERS members, meet with legislative and administration officials, and build coalitions in support and opposition of legislative proposals. They also represent CalPERS in legislative hearings and other policy making forums.

Ms. Stausboll reported that CalPERS staff raised over \$150,000 for the California State Employees' Charitable Campaign (CSECC). President Feckner presented the contribution check to Steve Heath, President and CEO, United Way, and Tanya Arambula, Director, CSECC.

AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of January 31, 2011 the Total Fund was approximately \$227.9 billion.
- For the one year period ended January 31, 2011, the net rate of return was approximately 15.37%.
- For the fiscal year-to-date period ended January 31, 2011, the net rate of return was 15.06%.

AGENDA ITEM 7 - INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, March 14, 2011.

George Diehr was elected Chair and Henry Jones was elected Vice Chair of the Investment Committee.

Vice President Diehr reported that the Committee approved staff's recommendation to adopt the asset allocations for the three policy portfolios of conservative, moderate and aggressive, as presented in the California Employers Retiree Benefit Trust (CERBT) Strategic Asset Allocation; contingent upon Benefits and Program Administration Committee and Board approval to offer three investment options.

Additional information may be found in the March 14, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for April 11, 2011 in Sacramento, California.

AGENDA ITEM 8 - AD HOC RISK MANAGEMENT COMMITTEE

The Committee did not meet in March.

AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Vice President, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, March 15, 2011.

George Diehr was elected Chair and Rob Feckner was elected Vice Chair of the Benefits and Program Administration Committee.

Additional information may be found in the March 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Adoption of staff's recommendations in number four and five of the Issue Memo in Attachment A to the Committee materials, and directing that staff return to provide additional information on items three and nine at a future meeting.
- Adoption of the revised Policy as set forth in Attachment B of the Committee materials and that the Board retain external counsel to advise the Board in connection with Proposed Decisions from the Office of Administrative Hearings.
- Support of AB 89 (Hill), if amended to incorporate Internal Revenue Code (IRC) section 401(a)(17) directly.
- Support of AB 873 (Furutani), if amended, and to continue to work with the State Controller staff.
- Support of SB 439 (Negrete-McLeod).

On **MOTION** by Committee and **CARRIED** with nay votes by Mr. Coony, Mr. Dunmoyer and Mr. Costigan, the Board approved the following:

Continuing with the current discount rate assumption of 7.75%.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

 Acceptance of the establishment of the three asset allocations strategies for the CERBT. Adoption of revisions to the CalPERS Other Post-Employment Benefits
 Assumption Model to reflect the establishment of three asset allocation
 strategies for the CERBT and their respective discount rate assumptions.

The next meeting of the Benefits and Program Administration Committee is scheduled for April 12, 2011 in Sacramento, California.

AGENDA ITEM 10 - HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, March 15, 2011.

Priya Mathur was elected Chair and JJ Jelincic was elected Vice Chair of the Health Benefits Committee.

Additional information may be found in the March 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Approval of staff's recommendation to support AB 36 (Perea) as amended February 18, 2011.
- Approval of staff's recommendation to extend the existing Third-Party
 Administrator contract for the Self-Funded Preferred Provider Organization to
 December 31, 2013; and, defer release of the Preferred Provider Organization
 Request for Proposal.

The next meeting of the Health Benefits Committee is scheduled for April 12, 2011 in Sacramento, California.

AGENDA ITEM 11 – FINANCE COMMITTEE

Henry Jones, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Wednesday, March 16, 2011.

Henry Jones was elected Chair and Lou Moret was elected Vice Chair of the Finance Committee.

Additional information may be found in the March 16, 2011 Agenda materials and transcripts of the Committee meeting.

Greg Beatty replaced Howard Schwartz at this time.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

Board adoption of the revised Audit Resolution Policy as presented.

- Approval of the following:
 - 1. Accept the proposed California Public Employees' Retirement System (CalPERS) FY 2011-12 Administrative Budget of \$334,196,000 and 2,366 positions, and recommend the Board of Administration (Board) approve the budget as a first reading.
 - 2. Accept the proposed CalPERS FY 2011-12 Enterprise Projects Budget of \$43,011,000, and recommend the Board approve the budget as a first reading.
 - 3. Accept the proposed FY 2011-12 CalPERS Headquarters Building Account (Building Account) Budget of \$42,611,000, and recommend the Board approve the budget as a first reading.
 - 4. Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.
- Approval of the transmittal letter and submission of the Budget and Expenditure Report through the second quarter of FY 2010-11 to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office, State and Consumer Services Agency and the Office of the Legislative Counsel.

The next meeting of the Finance Committee is scheduled for April 12, 2011 in Sacramento, California.

AGENDA ITEM 12 - AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in March.

AGENDA ITEM 13 - PERFORMANCE AND COMPENSATION COMMITTEE

Lou Moret, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, March 15, 2011.

Lou Moret was elected Chair and Dan Dunmoyer was elected Vice Chair of the Performance and Compensation Committee.

Additional information may be found in the March 15, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Awarding of contracts under RFP No. 2010-5619 for the Executive Compensation Consultant Spring-Fed Pool to the following firms, subject to final negotiations and satisfaction of all requirements:
 - Koff and Associates
 - McLagan
 - Pearl Meyer and Partners
 - o Towers Watson

Further, the Chair directed staff to inform the Performance and Compensation Committee prior to the selection and engagement of a firm for specific services.

The next meeting of the Performance and Compensation Committee is scheduled for May 16, 2011 in Sacramento, California.

President Feckner presented Patricia Clarey with a Board Resolution honoring her service to the CalPERS Board as a representative to the State Personnel Board. Ms. Clarey served as Chair of the Performance and Compensation Committee, as well as on the Benefit and Program Administration Committee, Investment Committee and Investment Policy Subcommittee.

The Board of Administration Open Session recessed at 11:30 a.m. and reconvened at 11:45 a.m.

Grant Boyken replaced Steve Coony at this time.

AGENDA ITEM 14 - BOARD MEETING CALENDAR

No changes were made to the Calendar.

AGENDA ITEM 15 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Donna Lum, Assistant Executive Officer, Member and Benefit Services Branch, provided a brief overview of the PSR stakeholder communication plan that was presented to the Benefits and Program Administration Committee the day before:

- The system conversion period will be September 2nd through September 18th, during which time limited services will be available to members and employees.
- Regional offices will be open during that time and requests taken will be processed at the end of the conversion period.
- The transition is already taking place for employers and business partners. The Public Employers' Retirement Readiness Team (PERT) has been working with them to prepare for the transition.

Karen Ruiz, PSR Project Manager, who presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- Customer acceptance testing scheduled to start on March 21st may be delayed for two to three weeks. Some early acceptance testing is expected to mitigate the late start.
- Training of the customer acceptance testing team continues. Business partner readiness is scheduled to begin on March 21st with a group of early testers. The larger staff training is scheduled for July.
- The project has a full communication strategy that includes day-to-day communications and several events planned.
- In April, an experience room will be set up for staff during the all-staff forum to provide an up-close look at the system and working functions.

John Nichols, Project Manager, Accenture, reported on the following:

- The project is on track to complete the remaining required scripts over the next four weeks.
- Approximately 800 different pages are now in the my|CalPERS system and the compliance work for the Americans with Disabilities Act (ADA) is completed.

Adam Roy, KPMG, Project Oversight, generally concurred with the project status report but remained concerned that the full CAT effort cannot begin until end-to-end testing is substantially complete.

AGENDA ITEM 16 – ORGANIZATIONAL STRUCTURE AND PROCESS INITIATIVE UPDATE

Donna Lum, Assistant Executive Officer, Member and Benefit Services Branch, provided an update on the Organizational Structure and Processes Initiative and reported on the following:

- On April 4th, most of the new reporting relationships in the new organizational structure will become active as the first phase of the implementation takes effect. The majority of the staff reporting and structure changes involve two areas:
 - Customer Services Support
 - o Benefits Program, Policy and Planning

- CalPERS is holding a Leadership Town Hall with managers and supervisors on March 21st to go over the new structure and will hold all staff sessions in early April.
- In the April Board meeting a long-term matrix will be incorporated in the business planning report.

AGENDA ITEM 17 – DIVERSITY UPDATE

Lindy Plaza, Chief Diversity Officer, Internal Operations, provided an update on Diversity and reported on the following:

- In November, CalPERS concluded an online unified diversity pulse survey of staff. In February, the Diversity Executive Steering Committee convened to discuss the survey results and develop a list of actions:
 - Develop CEA objectives for fiscal year 2011-12
 - Conduct a focus group
 - Review the 2011-12 Business plan to ensure that initiatives address issues that came out of the survey
 - o Conduct a Diversity and Inclusion Leadership forum in 2011 and 2012.
- Current initiatives to increase diversity awareness include:
 - Addition of a diversity performance factor for all managers and supervisors
 - Integration of diversity and inclusion language into leadership training modules
 - Drafting of a 2011-12 Diversity and Inclusion Business Plan
- CalPERS recently launched the Disability Awareness Training for Leaders, becoming the first state agency to comply with the former Governor's Executive Order S-11-01.
- The Diversity office conducted an enterprise online employee diversity survey last month in partnership with the State Personnel Board. The results show that CalPERS exceeded the State's parity rate of 16.6 percent with 29 percent of employees self-identifying as having a disability.

Tim Legesse, Investment Officer, reported on the following:

• CalPERS diversity programs relative to those of other state pension funds.

- CalPERS recently met with the outgoing Chair, the incoming Chair and the Executive Director of the National Association of Securities Professionals (NASP) whose mission is to serve as a resource for the minority community at large within the securities and investment community.
- The Toigo Foundation recently launched their ILEAD (Institute for Leadership, Excellence, Advancement and Diversity) Initiative to assist entrepreneurial alumni with coaching and strategic planning.

Gina Ratto, Deputy General Counsel, reported on the following:

- The health care counsel pool consists of four law firms, one of which is a diverse firm.
- The labor and employment counsel pool has received proposals from many diverse law firms in response to a recent solicitation. Interviews will be held in April.
- Solicitations will be released soon for the areas of business litigation and family law community property.

AGENDA ITEM 18 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

- CalPERS has responded to the findings of the Little Hoover Commission with a letter signed by the CEO.
- Staff will bring to the April Board the national retirement legislative standards that will guide CalPERS activities on the federal front.

AGENDA ITEM 19 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

• Staff continues to engage the Legislature on budget negotiations and to monitor spot, or intent bills that may show up as part of the approved budget.

AGENDA ITEM 20 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- The sustainability of public pension plans is receiving unprecedented focus on a number of fronts in the House of Representatives. Staff is working closely with California members on relevant committees and other industry advocates to correct the facts and provide additional background where needed.
- Anne Simpson, Senior Portfolio Manager, and Don Marlais, Lussier and Associates, are beginning a series of meetings with key Dodd-Frank financial reform advocates and allies.

AGENDA ITEM 21 – PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and presented a matrix of CalPERS responses to articles and editorials, and where some of those responses have been published.

AGENDA ITEM 22 - BOARD TRAVEL APPROVALS

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 23 - DRAFT AGENDA FOR March 16, 2011 MEETING

No comments.

AGENDA ITEM 24 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

AGENDA ITEM 25 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 25A through 25G.

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved adopting staff's argument on the proposed decisions of Administrative Law Judges for 25A through 25G, excluding 25D and 25F.

On **MOTION** by Priya Mathur, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved adopting staff's argument on the proposed decision of the Administrative Law Judge for 25D.

JJ Jelincic recused himself from the following vote.

On **MOTION** by Priya Mathur, **SECONDED** by Terry McGuire and **CARRIED**, the Board approved adopting staff's argument on the proposed decision of the Administrative Law Judge for 25F.

AGENDA ITEM 26 – PUBLIC COMMENT

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:51 p.m.

The next Board of Administration meeting is scheduled for April 13, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer